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SUMMARY RECORD OF THE 3rd MEETING

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on Tuesday, 19 May 1992, at 10 a.m.

President: Mr. CSERVENY (Hungary)
later: Mr. CLARK (United Kingdom)

CONTENTS

Agenda item		Paragraphs
5	Annual report of the Director-General for 1991 on the activities of the Organization (continued)	1 - 58
12	Financial situation of UNIDO	59 - 80

The meeting was called to order at 10.10 a.m.

ANNUAL REPORT OF THE DIRECTOR-GENERAL FOR 1991 ON THE ACTIVITIES OF THE ORGANIZATION (continued) (IDB.9/10 and Corr.1 and Add.1 and 2; IDB.9/CRP.3)

1. Ms. ANGELL-HANSEN (Norway) said that the fall in UNDP funding for technical cooperation from 74 per cent in 1986 to 51.7 per cent in 1991 illustrated a situation in which UNIDO would increasingly have to compete for scarce financial resources. That challenge could be met only by establishing a firm order of priority among the many demands on the Organization and by putting its resources to more efficient use. Efforts to improve the appraisal and evaluation of projects were thus most welcome. There was also an urgent need to reach an agreement on an early restructuring of the Organization.

2. Norway fully supported the increased cooperation between UNIDO and the international financial institutions outlined in the annual report in relation to those institutions. UNIDO could play an important complementary role, particularly at the micro level. Furthermore, in view of the difficult financial situation and the change in the mode of funding by UNDP, cooperation with the international financial institutions could constitute an important source of financing for UNIDO.

3. Norway continued to advocate further efforts to integrate environmental concerns into UNIDO's activities at all levels and had allocated special resources for that purpose. The outcome of the United Nations Conference on Environment and Development would be of importance to the work of all United Nations organs, including UNIDO. Careful consideration should thus be given to reaching agreement on Agenda 21, with a view to identifying possible adjustments to UNIDO's activities, since it was important that the Organization should demonstrate its readiness to help secure ecologically sustainable industrial development.

4. The number of least developed countries was continually rising and had now reached 47, most of them in Africa and Asia. In order to help reverse that trend, UNIDO should place greater emphasis on assistance to those countries and on the follow-up to the United Nations Second Industrial Development Decade for Africa. Measures undertaken by UNIDO in support of the legitimate needs of the transitional economies of Central and Eastern Europe should be

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Distr.: 27 May 1992

supplemental to those undertaken in the developing countries.

5. In concluding, her delegation noted with concern that the implementation figures in the area of human resources development had fallen considerably, from $23.2 million in 1990 to $17.6 million in 1991 - a trend that was all the more regrettable as it also adversely affected activities intended to benefit women. As an expression of its interest in the role of women in industrial development, Norway had given considerable support to the financing of the plan of action for the integration of women in industrial development.

6. Mr. PARVESCU (Romania) noted with interest UNIDO's projects designed to address the problems of the Eastern European countries making the transition from a centralized to a free-market economy. Events such as the meetings and workshops on methodologies for industrial restructuring, technology transfer and contracting, privatization of small and medium enterprises, the Investment Forum for Czechoslovakia and UNIDO-TECHMART'91 could make a significant contribution to transforming those countries' economies by stimulating foreign investment, opening up access to high technology and encouraging joint ventures and other forms of cooperation.

7. The year 1991 had seen the publication of some major studies and reports by UNIDO, including in particular the new edition of the Manual for the Preparation of Industrial Feasibility Studies, which would be a standard work of reference. His delegation regretted, however, that in the otherwise commendable Industry and Development, Global report 1991/92, the economic and structural reforms taking place in Romania had received almost no coverage. The legislative framework for those reforms was now generally complete, with new laws enacted to regulate areas such as the organization of trading companies and autonomous State-owned units, the establishment of joint ventures with foreign investors and privatization of State enterprises. Liberal conditions were applied to foreign capital: up to 100 per cent ownership, the possibility of repatriating local profits in hard currencies, permission to participate in bids for the privatization of State-owned enterprises, tax holidays and customs exemptions. Thirty per cent of the shares of trading companies were being distributed free of charge to Romanian citizens, in order to compensate them for their past efforts in building up existing assets, while the remaining 70 per cent were being sold to interested Romanian and foreign investors, in order to provide the financial resources necessary for the restructuring of industry. Romanian experts had recently prepared a three-stage restructuring strategy, which was designed, first, to halt the decline in production in 1992; secondly, to reach 1989 global production levels by 1995, giving priority to consumer-goods industries; and thirdly, to achieve industrial growth rates of between 2 and 4 per cent, with a high level of integration into European industry, by the year 2000.

8. The current year marked the twentieth anniversary of the establishment of the Joint UNIDO-Romania Centre. Projects implemented in 1991 as part of the Centre's activities had included group training in the reconditioning of spare parts and seminars on environment protection. New projects in the Centre's work programme for 1992 included a workshop on industrial investment project appraisal and valuation of public enterprises, a seminar on the petrochemical industry and a new version of the group training in spare parts reconditioning. His delegation was confident that at the seventeenth session of the Joint UNIDO-Romania Committee new ways would be found of strengthening cooperation through the Centre and that UNIDO would manage to increase its involvement in Romania's difficult process of transition to a market economy. One way of helping that process would be to arrange missions by foreign consultants to work with Romanian specialists at the Centre's Bucharest office, in order to identify industrial investment projects for subsequent promotion through the UNIDO network. An example of such activities was a regional project begun in 1991 and funded by the French Government for the purpose of identifying industrial opportunities in Eastern European countries, including Romania.

9. Despite its economic difficulties, Romania had done its utmost to meet its financial obligations under the UNIDO regular budget and had doubled its voluntary contribution to the Industrial Development Fund in 1992.

10. Mr. KOSTENKO (Observer for Ukraine) noted that in 1991, in spite of financial constraints, UNIDO had endeavoured to forge ahead in all the priority areas of its activity. It was clear from the record that despite a slight decrease in 1991, the total volume of technical assistance over the biennium had actually gone up and that there had been an increase in the number of projects successfully implemented, as well as a constant improvement in their quality. He singled out UNIDO's activity in the metallurgical sector, a sector very highly developed in Ukraine, but one facing major difficulties, which his country was unable to overcome unaided. He was particularly pleased to note the programme being developed on the initiative of the Metallurgical Industries Section of the Secretariat, which would help to make Ukrainian metallurgical enterprises more efficient and competitive.

11. Despite the problems facing it, his Government was doing its best to contribute to the Organization's programmes and projects. One example was the very successful training seminar and workshop for welding specialists regularly conducted until recently by the Electrical Welding Institute of the Ukrainian Academy of Sciences. With the disintegration of the former Soviet Union, the future of that seminar had been called into question. However, in spite of its financial difficulties, the Government of Ukraine had decided to keep it in being, on the basis of a bilateral agreement with UNIDO. A sum of 1,338,000 roubles had been earmarked under the 1992 budget for the accommodation and training of up to 45 participants annually from the developing countries.

12. UNIDO's activities in the field of the environment were worthy of special praise. As one of the countries that had borne the brunt of the Chernobyl accident, Ukraine was ready to assist in the implementation of programmes and individual

projects in that field. A UNIDO project for an international seminar on management and planning of industrial development with due regard to the environmental aspects, financed from voluntary contributions by the Ukrainian Government to the Industrial Development Fund, was currently approaching completion. The major executant of the project was the Cybernetics Institute of the Ukrainian Academy of Sciences. The results of the project should make a significant contribution to solving the problem of environmentally sound industrial development.

13. Turning to chapter VII of the annual report, and to the question of recruitment and staffing, his delegation noted that efforts continued to ensure that special consideration was given to candidates from unrepresented and under-represented developing countries. Unfortunately, in the majority of cases, that led to little tangible improvement in the situation, and the recruiting process continued to be selective and even discriminatory. His delegation would welcome detailed information on the exact geographical distribution of staff recruited in 1991. With the imminent retirement of two Ukrainian staff members, there was a real risk that as from 1 January 1993 Ukraine would no longer be represented in the Secretariat. In that respect, UNIDO's activity must be deemed less than satisfactory.

14. Mr. SALLOUKH (Observer for Lebanon) said that UNIDO assistance to the Arab countries remained scanty and should be increased. Developing and least developed countries in the Arab world were in urgent need of such aid, which could only come from the rich industrial countries. Lebanon itself badly needed assistance to build up its industry again from scratch and regain the position it had held before the tragic and destructive events which had befallen it. He was pleased to note that two UNIDO delegations had visited Lebanon and held useful discussions with the Lebanese authorities regarding development needs there. He hoped the end of the cold war and the trend towards disarmament would enable sizeable funds to be diverted to assistance to needy countries. He concurred with the observer for Palestine regarding the suffering of the Palestinian people under the occupation, which had prevented them from realizing their industrial and agricultural potential. He would accordingly urge the Director-General to establish an economic unit for the Palestinians in the occupied territories.

15. Mr. AL-BAHAR (Kuwait) shared the Director-General's concern over UNIDO's shortage of financial resources. Despite the calamity which had overtaken his country, it had fulfilled its financial obligations to UNIDO in full and was keen to cooperate with the Organization in order to provide assistance to the developing countries. UNIDO experts were due to visit Kuwait shortly to advise the owners of industrial enterprises on development and modernization following the destruction which had occurred in 1990. He hoped that permanent channels of communication would thus be established. He supported the efforts to increase the effectiveness of UNIDO through restructuring, for instance by reducing the number of deputy directors-general to three. Finally, his delegation was concerned that the programme of technical assistance to the Palestinian people had produced nothing new, and he hoped that the programme would be revitalized in view of the continuing peace efforts. He also hoped that the Director-General would attach particular importance to the reconstruction of Lebanon.

16. Mr. EL-HUSSEIN (Sudan) said he was concerned over the decrease in the volume of activities and programmes in 1991, which was attributed to the general world climate, a drop in UNDP funding and the failure of certain major contributors to fulfil their obligations. Despite its limited means, Sudan had just recently paid its arrears and its 1992 contribution, and it appealed to other countries to do likewise.

17. He commended UNIDO for carrying out, despite its financial difficulties, projects aimed at strengthening industrial potential and self-reliance in the African region. His country had received particular assistance for the private sector, training in the sugar industry and the development of small and medium-sized industries. The countries of the continent hoped that UNIDO would increase its technical assistance to them and develop its cooperation with the Organization of African Unity and the Economic Commission for Africa. The majority of least developed countries were situated in Africa, and he hoped that such countries would be given priority in UNIDO's programmes.

18. He noted with concern the lower proportion of approved projects and the lower execution rate for 1991 compared with 1990, despite the fact that project funding under self-financed and trust fund schemes had increased from $25.7 million in 1990 to $31.2 million in 1991. It was regrettable that the Industrial Development Fund was still far below the desirable level of $50 million. However, as noted in the report, openings had been identified for cooperation with African, Asian and American development financing institutions.

19. The rapid progress of industrial technology made it necessary to intensify training programmes to develop human resources. He was gravely concerned that the report had noted a big drop in expenditure on training compared with 1990 and he urged UNIDO to increase spending in that vital area. Regarding the Second Industrial Development Decade for Africa (IDDA), he commended the level of project execution and hoped for continued cooperation with ECA in preparing IDDA projects within the framework of the Dakar Declaration on Industrialization and Economic Integration in Africa for the 1990s, in particular with respect to agriculture-related industries, since many African countries had suffered in recent years from drought and desertification. His country had benefited notably from technical assistance with food processing. Regarding least developed countries, he hoped that practical steps would be taken to implement the recommendations of the Paris Declaration and the 1991 Vienna workshop. He referred in that connection to General Assembly resolution 45/206 on implementation of the programme of action for the least developed countries for the 1990s.

20. Turning finally to the private sector, he noted that UNIDO was making commendable efforts to develop investment policies and institutions in the developing countries. Sudan had received assistance in developing the private sector and

drawing up investment programmes. In February, Sudan had adopted a new economic policy aimed at revitalizing the economy and securing an active role for the private sector.

21. In conclusion, he joined other delegates in calling upon UNIDO to make more positive efforts to provide assistance to the Palestinian people as well as to contribute to the reconstruction of Lebanon.

22. Mr. ROSALES (Cuba) said that despite UNIDO's continuing financial difficulties and the changes in the world over the last few years, satisfactory results had been achieved in some sectors, which should encourage the Organization to seek ways of improving its work still further. Its activities would be of more direct benefit to the developing countries if it recognized that there were various models of development and that the choice between them was a matter for the sovereign decision of Member States. UNIDO's main programmes should be reoriented in order to give priority to activities that derived from the recipient countries' basic objectives in pursuing sustained development. In particular, the Organization should maintain a balanced position on the different approaches to development currently being followed by the developing countries, so that each country could freely choose, without preconditions of any kind, the option it regarded as most appropriate. Over-emphasizing any of those variants to the detriment of the rest could violate the Organization's principle of universality.

23. In connection with technical cooperation activities, the annual report drew attention to the increased diversification of sources of financing as a result of the decline in UNDP funding. The implications of that development for the Organization should be thoroughly analysed, with a view to maintaining an adequate programme of technical cooperation, with increased emphasis on transfer of technology. Further refinement of the machinery for the exchange of experience among Member States was particularly important for UNIDO's work, especially the strengthening of working relationships with regional organizations such as the Latin American Economic System and the Latin American Energy Organization.

24. Mr. VETCHEVKO (Belarus) said that UNIDO's work over the past year had contributed to the industrialization of the developing countries and facilitated their closer cooperation with the developed countries and with each other. Together with an increase in the number of projects and the volume of assistance, there had also been an improvement in the quality of the services provided. There had been a greater number of projects concerned with the transfer of technology or development of advanced technology and preparation of the corresponding infrastructure. Technical assistance had been given in extending the network of small and medium-sized enterprises as a step towards creating an effective market economy and getting away from monopolistic production. UNIDO had been active in facilitating investment in the developing countries, and projects were being implemented for the introduction of modern technological and economic information systems. The Organization had been increasingly involved in various types of inter-agency coordination for environmental protection, in particular in the work of the Special Task force for Chernobyl and the preparations for the United Nations Conference on Environment and Development.

25. The unprecedented ecological damage suffered by Belarus as a result of the disaster at Chernobyl made it especially interested in environmental activities. It needed UNIDO's assistance in working out practical measures for eliminating the consequences of that disaster. In Belarus, the process of transition towards a market economy and democratic restructuring was taking place against the backdrop of a major economic crisis. Since the start of the year, the volume of industrial production had dropped by 10 per cent and the standard of living of the population had declined proportionately. The country's entire resources had been mobilized to deal with the consequences of the catastrophe, and the reserves needed for the restructuring of industry and the introduction of new technologies had been exhausted. It was clear that, without the help of the international community, it would be extremely difficult to solve the problems of economic and democratic renewal. Now that it had recipient status with UNDP, Belarus counted on assistance from the specialized agencies in overcoming its economic crisis as expeditiously as possible. It understood that UNDP's financial assistance would cover only a small part of the expenses it would have to meet in financing specialized agency activities in Belarus.

26. Given its special expertise, UNIDO could make a significant contribution in a number of sectors, including the drawing up of a master plan for industrial development. It could help in preparing programmes for modernizing the basic industrial sectors with due regard for problems of environmental protection and energy saving. It could also draw up programmes to develop the private sector and expand the network of small and medium-sized enterprises, as well as facilitate foreign investment in industry and agro-industry. It could assist in the development and creation of information systems and economic and industrial data banks. Belarus needed help in developing technologies which would allow it to exploit land currently polluted by radioactivity. It was also interested in receiving UNIDO's assistance with the production of dosimetric and deactivation equipment and fire-fighting facilities. It hoped to receive a United Nations programme mission in the near future and that proposals for relevant projects would be developed in the course of the mission's work.

27. Mr. BAKSHI (Pakistan) said that although progress had been made throughout the 1980s in restructuring world industry in favour of the developing countries, only a few had been able to improve their economic growth and the majority had experienced a declining trend. Such modest development as had taken place had been partly due to the assistance provided by UNIDO through its technical cooperation programmes. Efforts needed to be redoubled in order to give renewed impetus to the process of development. The developing countries should cooperate more among themselves. If they did not do so, their progress would remain far less than was required, and the achievement of the target of 25 per cent of world industrial output by the year 2000 would remain a dream.

28. Both collective and individual efforts were required from Member States. The Government of Pakistan, for its part, had recently taken measures to transform the country's economic framework from a regulated system into a completely free one. Bold reforms had been introduced in all the vital branches of economic activity. Government licences and permits had been abolished to make way for the free play of market forces, and the private sector had been entrusted with a key role in present and future economic development. Restrictions had been lifted on fresh local and foreign investment, and a completely free foreign-exchange system had been put in place. The Government was making rapid progress in disposing of public sector units, and the private sector was actively associated in expanding the social, physical and economic infrastructure. It would, however, take some time for the new forces which had been released to have a sizeable impact on such negative features as the huge budget deficit and excessive foreign debt. Pakistan was not, of course, alone in its struggle, and other developing countries in South-East Asia faced similar problems.

29. The Government of Pakistan was cooperating fully with UNIDO and participating in its efforts to increase the pace of industrialization in developing countries. Strong economic ties had been established with similarly-placed countries in the region. A large number of joint investment projects had been undertaken with the cooperation of other developing countries, and, in the field of trade, progressively higher targets were being achieved. Pakistan had also participated in most of the solidarity meetings and other high-level gatherings at the ministerial or official level and had put forward a number of proposals to support the industrial development of the least developed countries.

30. All delegations recognized that the task of achieving satisfactory levels of industrialization in the developing world was not an easy one. It required massive amounts of investment, technology transfer and human endeavour. UNIDO could not perform the task on its own. It could, however, play a catalytic role through its overview of development strategies, its sponsorship of projects which could later trigger larger-scale productive activities, its activities in research and technical cooperation, and its help in encouraging the process of industrialization by providing critical skills or factors which individual countries lacked. In addition, its System of Consultations, of solidarity meetings for the industrial development of the least developed countries, its high-level meetings to develop cooperation in specific industrial sub-sectors, its technical workshops, seminars, study tours and training programmes, all made it an important partner for the developing countries.

31. Mr. AL-MONAJED (Syrian Arab Republic) noted the difficulties experienced by UNIDO in carrying out its programme owing to the shortage of funds. He feared that adopting a policy of prioritization in order to deal with the crisis might deprive the least developed countries of vital projects and further widen the North-South gap. Instead, efforts should be redoubled to augment UNIDO's resources and to make use of local expertise. The shift of many countries from planned to market economies had altered assistance requirements and affected the UNIDO's role in those countries. Private sector investment in general had greatly increased. In the Syrian Arab Republic, since May 1991, over 320 private industrial and service projects had been authorized, involving investment of over $1.2 billion, while public sector investment had amounted to $800 million. He appreciated UNIDO cooperation in those new projects.

32. He welcomed the first step taken to provide assistance to the Palestinian people, who deserved greater attention from the international community. He urged the Director-General to establish an economic unit for the Palestinian people.

33. Mr. Clark (United Kingdom) took the Chair.

34. Mr. NDJOKO (Zaire) referred to the chain of events which had led from the profound changes in the international scene during the past two years, through the evolution towards greater democracy in many countries and the creation of new Member States, to a situation in which some of those States were benefiting from UNIDO's services without increasing its resources. That situation could not fail to lay a heavy additional burden on the Organization, and the Director-General had drawn attention to the further strain on resources caused by the non-payment of contributions by a considerable number of Member States. The arrears in payments in fact amounted to approximately three quarters of the annual regular budget. UNIDO could not operate effectively in those circumstances, and he wished to appeal to all Member States that had not paid their contributions to do so as soon as possible.

35. The strategies and operations outlined in chapter II of the annual report appeared to be very satisfactory, but it should be borne in mind that UNIDO's strategy must be kept in line with the needs of the developing countries. It was the African continent that needed UNIDO most, since it was the least advanced on the path of industrialization. A Conference of African Ministers of Industry had recently called for a re-examination of the study on the creation of a regional UNIDO office for Africa, not only from the financial point of view, but above all from that of the operational and functional advantages that such an office would offer for the implementation of the Second Industrial Development Decade programme, especially as regards the promotion of private investment.

36. Africa attached great importance to the Industrial Development Decade and welcomed the priority which the Director-General continued to give it, in spite of the difficulties surrounding it. The programme for the Decade included 15 national and four subregional programmes and called for corresponding resources and technical assistance. Stress should now be laid on the mobilization of financial resources, investment promotion activities, the development of small and medium-sized enterprises and local entrepreneurship, with particular attention to the problems of women entrepreneurs.

37. Zaire wished to see UNIDO become a credible partner and a source of expertise on all questions relating to industry in Africa (human resources, relations between industry and the environment, services connected with industry), providing

support for the preparation of industrial policies and playing the role of lead agency on questions concerning industrial development throughout the United Nations system.

38. Mr. AL-KITAL (Iraq) said that in view of the economic havoc wreaked by the Israeli authorities in the occupied territories, UNIDO had a duty to provide assistance to the Palestinian people in building up their national industry and infrastructure. His delegation was unhappy that so little had been accomplished over the past two years. A special unit should be established in the Secretariat to provide assistance to the Palestinian people in cooperation with the Palestine Liberation Organization.

39. Regarding the financial situation, Iraq, which had always paid its dues promptly in the past, was no longer in a position to do so, owing to the unjustified and illegal continuation of the embargo imposed in particular by the United States and the United Kingdom in pursuance of their illegitimate political objectives.

40. UNIDO had an important role to play regarding the environment, but it should not let such activities encroach upon the primary tasks entrusted to it by its Constitution. It should not seek to replace or compete with other organizations concerned with energy and the environment, whether within or outside the United Nations system. Furthermore, protection of the environment should not be invoked as a reason to impose specific technologies as environmentally sound; choice of technology should remain a basic right of each State.

41. Mr. PAREDES (Peru), referring to the question of trust funds, welcomed the steady increase over the years in the amounts involved, which had now reached a figure of $40.6 million for projects approved and under implementation in 1991. Those positive results showed the way in which the Organization should proceed to meet industrialization needs, especially in the third world. Restructuring adjustments should help the UNIDO Funds Mobilization Division to operate successfully. His Government was most grateful for the trust fund set up for industrial restructuring and privatization in Peru with the financial assistance of the Government of Japan.

42. Although the subject was not on the agenda at present, the restructuring of UNIDO was of great importance, and it would be useful to set up a working group to consider the matter in depth, bearing in mind the lessons learned during previous years. It would have to deal with such matters as financing, mandates and budget allocations for projects. A new, flexible and efficient structure should be created which would enable UNIDO to face current needs in the light of the recent international changes and make progress towards its main objective of promoting the industrialization of the third world countries.

43. Mr. AL-ERYANI (Observer for Yemen) expressed his concern over the fall in the level of activities in 1991 as a result of the shortage of financial resources and the inability of many Member States to pay their contributions. However, if the countries in a strong financial position shared the necessary understanding, it ought to be possible to stop the gap between the developed and the developing countries from widening further. As one of the least developed countries, Yemen attached great importance to the development of human resources and hoped that UNIDO would devote particular efforts to such activities in the coming period. UNIDO could also help Yemen to overcome the problems arising from the merging of different economic, social and cultural models following unification in May 1990, and should take that matter into consideration in its plans and programmes for the Arab region. He joined other delegations in requesting the establishment of a unit in the occupied Palestinian territories to provide sorely needed assistance to the Palestinian people.

44. Mr. SIAZON (Director-General), replying to comments made in the debate, recognized that there was some room for improvement in the form and content of the annual report. It had been suggested that it should outline future aims and strategies, but he feared that, with the unpredictability of the cash flow, that might do no more than raise hopes which would only be dashed later. UNIDO's funds had been steadily decreasing, and it was frequently obliged to hold back when it would wish to reach out towards new targets.

45. A considerable amount of concern had been expressed about the slow-down in the delivery of technical assistance and in the approval of UNDP projects. It could indeed be seen from page 14 of the annual report that there had been a drop in project approvals and in the residual stock of projects between 1990 and 1991. There were many reasons to explain the drop. The decrease in UNDP funds for UNIDO projects was partly due to the fact that 1991 had marked the end of a cycle and partly to the fact that the approval of country programmes in the new cycle had been delayed, possibly through the introduction of new approval procedures. In the circumstances, it was probably fortunate that UNIDO had made efforts to develop closer relations with other financing bodies, such as the World Bank, and it was hoped that those efforts would yield positive results, allowing UNIDO to offset the drop in UNDP approvals during the next 12 months. Discussions were proceeding as to what UNIDO's share of the IPFs should be, and he himself intended to clarify the position with the UNDP Administrator. Negotiations between UNDP, UNIDO and recipient countries had also held up the process of project approval.

46. He welcomed the fact that many delegations had spoken of the need to identify priorities and believed that the suggestion by the representative of Austria that delegations should continue to exchange views would be of assistance, particularly if the Board could agree on priority programmes for the period 1994-1995.

47. There seemed to be general agreement on the need for restructuring. The Secretariat, for its part, believed that there was a need to look at UNIDO's working procedures to ensure that they were as efficient as possible. But in the final analysis the matter was in the hands of the Board.

48. He believed it necessary to consider the issue of UCDs separately. In view of the new arrangements with UNDP, there seemed to be a need for further study of the matter. Given UNIDO's financial position, however, he did not believe it

possible to meet the hopes of many developing countries for an increase in the number of UCDs from 39 to 50.

49. He was glad to say that UNIDO was now following more differentiated and flexible practices with regard to the employment of experts. It was recruiting them from countries whose nationals were prepared to accept salaries lower than those of Western European experts. The developing countries were changing with the rest of the world and, although some of them requested assistance for high-technology projects, others still required assistance for more modest projects as well.

50. In response to the comment made by the representative of the European Community to the effect that the Programme Development Support Unit might be too academic, he pointed out that the methodology it used was a tool intended for the cost-effective development of programmes covering a large number of countries in one or more regions, and that it would be used only for the preparation of integrated programmes which were likely to attract public and private interest and for which technical cooperation financing was virtually assured.

51. Reference had been made to the types of indicators used in the annual report, and he agreed with the representative of Mexico that it might be useful in future to use something other than the dollar delivery as UNIDO's main indicator for technical assistance projects. That would probably be necessary as a result of the changes involved in UNDP successor arrangements. The annual report, however, did include other indicators, such as the number of programmes identified or the number of seminars organized and held. The question required further consideration and discussion, so that the annual report might be adapted to meet the expectations of Member States more closely the following year.

52. Referring to expenditure under the regular and operational budgets in 1991, as shown in the table on page 134 of the annual report, he agreed with the representative of Mexico that staff costs of some $87 million represented a high proportion of the total expenditure of some $106.8 million. However, it was important to consider UNIDO's role as compared with that of other organizations. UNIDO was meant to be an agency for the delivery of technical assistance. Since 1986-1987, the bulk of its regular budget had been devoted to staff costs, and very little to programmes, no more than 6 per cent for technical assistance and $8.6 million for the Industrial Development Decade for Africa (IDDA), some of which had subsequently been included in the technical assistance component. At the same time, the use of outside consultants had been reduced. Many of the studies formerly entrusted to consultants were now being carried out by staff members themselves. Moreover, UNIDO's operational budget, as laid down in the Constitution, differed from that of other organizations. The expenditure shown in the table on page 134 related only to support costs. A comparison with other organizations showed that in WHO, for example, the regular budget for 1992-1993 came to $763 million and the operational budget to $929 million, which included all technical assistance. If the UNIDO budget were presented in the same way, approximately $150 million of technical assistance would have to be included, which would make the total budget much bigger, while reducing the percentage of staff costs. In the case of FAO, the regular budget for 1992-1993 amounted to $651 million and the operational budget to $880 million, also including technical assistance. Consequently, comparison with the budgets of other organizations was misleading.

53. With regard to the comment made by the representative of Mexico on the nominal growth in the budget, he observed that the issue had already been debated at great length. It all came down to a question of whether the budget was calculated in United States dollars or Austrian schillings. In practice, a very large proportion of it, around 90 per cent, was spent in Austrian schillings.

54. He had done his utmost to provide assistance for the Palestinian people. But it was not merely a matter of creating a unit or a focal point within the Secretariat, although in fact an economist and a research assistant had been appointed in addition to the focal point. What was really lacking was money and resources. He therefore appealed for voluntary contributions from all countries that supported the Palestinian people, and in particular from the industrialized countries, to enable him to begin carrying out projects. A mission had already been sent to Lebanon. As soon as conditions were right and the United Nations gave UNIDO the signal, the Organization would start operations.

55. Reference had been made to the decrease in the allocations for human resources development, or training. The reduction was mainly due to a decline in overall UNDP projects for UNIDO, since a large proportion of training programmes had been funded under the UNDP indicative planning figure. In that connection, it should be noted that the 1990 amount of $17.2 million had fallen to $14.2 million in 1991.

56. A special effort had been made to identify women experts who could be recruited by UNIDO. In 1991, 184 women experts had been employed - 6.8 per cent of the total - which represented a small but encouraging increase over the 1990 figure of 6.4 per cent. The UNIDO roster of candidates included only 4.1 per cent of women, as compared with the 6.8 per cent actually recruited. The solution lay primarily with national recruitment services, which he would urge to put forward suitably qualified women candidates.

57. Several bilateral issues had been raised. He would make available to the representative of the Russian Federation a list of ongoing activities. The representative of the Czech and Slovak Federal Republic had expressed regret over the delay in the preparation of the major project on waste treatment involving three countries of the region. A project of that size, it should be noted, took roughly 18 months to develop, even when the resources for it were guaranteed. It was gratifying to note that several neighbouring countries had voiced an interest in the project and that Austria might be able to offer financial support. He looked forward to faster progress on the project in the near future.

58. The PRESIDENT, after noting that the debate on agenda item 5 had been concluded, said that the Board would return to the matter later to adopt a decision.

FINANCIAL SITUATION OF UNIDO (IDB.9/16; IDB.9/CRP.5 and Corr.1)

59. Mr. WARNER (Deputy Director-General, Department of Administration), introducing the item, observed that since becoming a specialized agency, UNIDO had always faced one form of financial crisis or another. In the past, such crises had been largely confined to the regular budget, but UNIDO now faced a situation embracing both the regular and operational budgets, which dramatically reduced the alternatives open to it. With the transition of the Soviet Union into a Commonwealth of Independent States, a significant source of financial support had disappeared and there was no way of knowing when the flow of funds might start again. Consequently, the 1992 forecast did not include that source.

60. The crisis had necessitated contingency measures, which were outlined in the documents presented to the Board. However, the real answer remained in the hands of Member States. There was a very real possibility that during several periods of the year the Organization might not be able to meet its fundamental obligations. He felt confident that Member States recognized the seriousness of the situation and would make every effort to pay their assessed contributions promptly.

61. While taking a conservative approach to expenditure levels in the operational budget, UNIDO had maintained them in the first five months of 1992, in anticipation of functional responsibilities under the successor arrangements with UNDP. Those arrangements had not been implemented in a form which permitted financial results in line with estimates established in 1991, the final year of the fifth UNDP programming cycle. Meanwhile, the implementation of the successor arrangements had been delayed by eight months, which might create a serious imbalance in terms of expenditure and income in the operational budget. Although the Organization had reserve provisions for such contingencies, there was a limit on how long such resources could support a shortfall in income. As that limit was approached, UNIDO would have to have recourse to still more conservative procedures, paying due attention to the delicate balance between the delivery objectives for technical assistance and the level of resources needed. As resource levels declined, so did the probability that programmes could be delivered. Yet the time limitations on UNIDO's reserve capacity required that action be taken far enough in advance to head off illiquidity. Intensive efforts had been devoted to obtaining income from alternative sources; recent experience with multilateral financial institutions had been positive in that respect.

62. The Secretariat had taken steps to curtail expenditure since the General Conference and was prepared to use even more conservative approaches in order to maintain fiscal integrity. The Organization had entered the initial phase of an adjustment period. The conclusions drawn and the subsequent action taken would determine the course of operations in the years to come.

63. Ms. KIMBLE (United States of America) said that her country, which shared the concern of other Member States and the Secretariat about UNIDO's financial situation, welcomed the comments made by the Deputy Director-General. The Organization had been forced to make difficult adjustments, and she recognized the Secretariat's efforts to cope with constraints and keep key activities going. The slow-down in technical cooperation delivery combined with exchange-rate fluctuations had had a major negative impact on the operational budget. In the UNDP Governing Council, the United States representative had urged UNDP to speed up implementation under the successor arrangements. That would be a first step. However, the failure of Member States to pay their assessed contributions and to reduce their arrears made it extremely difficult for UNIDO to carry out its programme of work. The outlook for UNIDO's financial flows remained uncertain, necessitating restructuring as a matter of urgency.

64. Her Government was committed to meeting its financial obligations to UNIDO and had begun to implement a plan to pay its arrears over five years in instalments of roughly equal value. Those payments were in addition to full funding of its regular UNIDO assessments. A second arrears payment of approximately $3 million was expected in the current fiscal year, following an initial $2.9 million payment in 1991. The budget request for 1993 included full funding of the 1992 assessment as well as funding for payment of the third instalment of arrears. The total 1993 request for UNIDO amounted to $26,624,000: $23,566,000 for the 1992 assessment and $3,058,000 for arrears. It was expected to complete payment of arrears by 1995.

65. The severe budgetary constraints facing all States had to be recognized. There was no reason to expect larger resource flows, which made the outlook for the decade unpromising. All countries should work together to focus the limited resources available on real priorities and to take the essential decisions on restructuring.

66. Mr. FIGUEIRINHAS (Observer for Portugal), speaking on behalf of the Member States of the European Community, expressed deep concern about UNIDO's critical financial situation, noting that the Director-General had been forced to take measures to face the crisis resulting from the high percentage of unpaid assessed contributions. The situation was unacceptable, and he again urged Member States to pay their contributions on time and their arrears as soon as possible. In the end, it was the recipient countries, especially the least developed among them, which would suffer most.

67. The contingency measures, such as the higher vacancy factor and the lower level of allotments, were justified by the situation, but provided no solution for the long-term future of the Organization. On the contrary, they might jeopardize the fulfilment of UNIDO's objectives. Being deeply concerned over the shortfall in income, both in the regular and operational budgets, he underlined the need to prioritize UNIDO's activities and, if necessary, to suspend some that were of lower priority. Proposals along those lines should be submitted to the next session of the Programme and Budget Committee.

68. In conclusion, he supported the proposal made in paragraph 16 of document IDB.9/16 concerning the methodology to be used in establishing the dollar equivalent of unused schilling balances.

69. Mr. KAMEL (Turkey) noted that the unpaid contributions from Member States now amounted to some $98 million, which had obliged the Secretariat to cut down spending and to increase the vacancy factor. As pointed out by the Joint Inspection Unit, that practice was in conflict with UNIDO's responsiblity to implement the approved budget and programme in full. In the past, the Organization had been able to use a surplus in operational budgets to solve the liquidity problem. However, project approvals had slowed down in 1991, which would result in less income for the operational budget. The long delay in implementing the successor arrangements had had a negative impact on income expectations. Indeed, hardly any project had been approved by UNDP in 1992. There was little cause for optimism about other sources of income.

70. Given UNIDO's critical financial situation, he called for further information on the following: project allotment documents for 1992 and coming years; number and cost of projects approved in 1992, by source of funds, and comparison with the same period in 1991; money available in the operational budget after deducting the statutory reserves; number of staff members charged to the operational budget and actual monthly expenditure in 1992, together with projected monthly expenditures to the end of the year; implementation of projects in 1992, by source of funds, and comparison with the same period in 1991, together with projected implementation until the end of the year. With that information, the Board would be in a better position to judge the dimensions of the problem and to take the necessary remedial measures.

71. Mr. ANGUIANO (Mexico) said that the present financial crisis was more acute than any previous one, with the consequences set forth in document IDB.9/16. It would be recalled that his country had voted against the proposed budget for 1992-1993 at the fourth session of the General Conference. Because of the lack of transparency concerning the financial obligations of Member States, Governments were faced with a 25 per cent increase in their assessed contributions, despite the assertion that the regular budget represented negative real growth. As a result, many States were unable to meet their obligations, as shown by the fact that arrears now amounted to more than $70 million. His own Government had been one of the first to begin payment for the current biennium and had just deposited a second instalment. He appealed to other Member States to pay their assessed contributions as rapidly as possible.

72. In view of the arrears of over $23 million for the previous biennium, he invited members of the Board to offer guidance to the Director-General on how to overcome the present financial problems. Instead of sharing out reductions evenly among all programmes, he suggested the more unconventional approach, already tried out within the United Nations system, of requesting the regional groups to establish their own priorities, so that programmes of lesser importance could be eliminated in favour of more relevant or urgent ones.

73. The unrealistic estimate of income for the operational budget made it essential to adopt remedial measures so that the situation could be stabilized. More drastic measures were needed, involving economies and improvements in operational efficiency; staff cuts to levels commensurate with income; and use of the unused balance of $4.2 million from earlier bienniums. Unless some such measures were adopted, it might prove necessary to have recourse to a supplementary budget to enable the Organization to continue its operations.

74. Mrs. MOYA-GOETSCH (Austria) said that the failure of so many Member States to meet their financial obligations was due to genuine constraints in some cases and to an obvious lack of commitment in others. Reliable payment of assessed contributions was the only solution. She considered that the high vacancy factor was bound to have a negative effect on UNIDO's programme implementation. Furthermore, she agreed with the Inspector that it was not logical that Member States, by not fulfilling their legal obligations, should hamper the Secretariat in implementing the approved programme budget. Consequently, the contingency margin should be removed as soon as possible.

75. At the same time, Member States had the right to demand value for their money, which implied that at times of financial difficulty cutbacks should be made in such areas as administration. Operational programmes should be rationalized, but only curtailed when absolutely necessary. Expensive mistakes, such as had occurred in the past, must be avoided at all costs.

76. Mr. OCHOA (Venezuela) said that the regular budget deficit was to a large extent attributable to late payment or non-payment of contributions by Member States. His Government was endeavouring to finalize payment of its 1992 contribution as soon as possible, and it urged other Member States, especially the major contributors, to pay their contributions forthwith.

77. His delegation was extremely concerned at that situation, not only because the result was that a number of activities for developing countries had had to be postponed, but also because the unexpended balances for two consecutive bienniums would not necessarily be used to execute the activities for which the appropriations had originally been approved. In that regard, his delegation awaited with great interest the report by the External Auditor.

78. With regard to the question of the 15 per cent reserve, his delegation considered that the issue should be placed on the agendas of the eighth session of the Programme and Budget Committee and of the next session of the Board. Nevertheless, it was clear that in the circumstances imposed by a policy of zero real growth, there must be a prioritization by Member States of UNIDO programmes, using the Medium-Term Plan as a frame of reference.

79. With regard to the operational budget, the fact that the income estimates adopted by the General Conference at its fourth session might not be achieved, inter alia as a result of the implementation of the new arrangements in the tripartite relationship with UNDP, meant that the Secretariat should be asked to submit, at the next

session of the Committee, an estimate of operational budget income for the remainder of the biennium. In the meantime, the operational budget might be brought into balance through measures such as greater economies at all levels, greater efficiency, and the use of the uncommitted operational budget reserves. Use of the statutory reserve would require the express authorization of the Committee and of the Board. With regard to staff reductions as an additional means of balancing the operational budget, the principle of equitable geographical distribution among staff of the Secretariat must continue to be respected.

80. In conclusion, he asked the Secretariat to provide a fuller explanation of the criteria applied in deciding on the postponement of execution of activities in response to threatened falls in the Organization's income.

The meeting rose at 1.05 p.m.